



**TOWN OF CARROLLTON, MISSOURI
YEAR ENDED DECEMBER 31, 2000**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2002-07
January 24, 2002
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

January 2002

The following problems were discovered as a result of an audit conducted by our office of the Town of Carrollton, Missouri.

A major change in the normal operations of the Carrollton Municipal Utilities during the summer of 2000 was not formally approved by the town's Board of Public Works. During the summer of 2000, the town generated almost all of its own electricity instead of purchasing it as is normally done. This change appears to have been a cause of a 59 percent increase in customers' electricity bills during the summer of 2000 compared to summer 1999. While the base rate for kilowatt hour usage did not increase during this period, fuel adjustments, which are added to customers' electricity bills when the town generates its own electricity, increased substantially causing the overall increase in electric bills.

Our review noted the following concerns with the town's decision to generate all of its electricity:

- This decision was not formally approved by the Board of Public Works. Officials and employees indicated the matter was informally discussed by the board, but the board did not document formal approval.
- The town did not perform a formal cost benefit analysis to compare the costs of generating electricity to the costs of purchasing electricity.

The audit also includes some matters related to utility bidding and payroll procedures, fuel card and vehicle policies, and budgeting upon which the city should consider and take appropriate corrective action.

All reports are available on our website: www.auditor.state.mo.us

YELLOW SHEETS

TOWN OF CARROLLTON, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS	4-13
<u>Number</u>	<u>Description</u>
1. Utility Rates	5
2. Utility Bidding Policy	7
3. Utility Payroll Procedures	8
4. Fuel Card and Vehicle Policies	9
5. Budgets	12
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION	14-16

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Town Council
Town of Carrollton, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Town of Carrollton, Missouri. The town had engaged Kimberly A. Ritchhart, Certified Public Accountant (CPA), to audit the town for the year ended December 31, 2000. The town had also engaged Williams Keepers LLC, Certified Public Accountants & Consultants, to audit the Carrollton Municipal Utilities for the year ended December 31, 2000. To minimize any duplication of effort, we reviewed the reports and substantiating working papers of the CPA firms. The scope of our audit of the town included, but was not limited to, the year ended December 31, 2000. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the town.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the town's management and its audited financial reports and was not subjected to the auditing procedures applied in the audit of the town.

The accompanying Management Advisory Report presents our findings arising from our audit of the Town of Carrollton, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

September 27, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Mark Ruether, CPA
In-Charge Auditor:	Susan Beeler

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

TOWN OF CARROLLTON, MISSOURI
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Utility Rates

- A. A major change in the normal operations of the Carrollton Municipal Utilities during the summer of 2000 was not formally approved by the town's Board of Public Works. During the summer of 2000, the town generated almost all of its own electricity instead of purchasing it as is normally done. While there appeared to be legitimate reasons to support this action, this change appears to have been a cause of a 59 percent increase in customers' electricity bill during the summer of 2000 compared to the summer of 1999. While the base rate for kilowatt hour usage did not increase during this period, fuel adjustments, which are added to customers' electricity bills when the town generates its own electricity, increased substantially causing the overall increase in electric bills.

The town normally purchases most of its electricity from Kansas City Power and Light (KCPL). However, during the peak summer months, the town must generate some electricity to keep up with the demand because its connection to KCPL cannot handle the increased load. The town charges a standard rate per kilowatt hour used. If any electricity is generated by the municipal utilities, the rate structure includes a fuel adjustment added to the customers' bills to recoup the cost of the fuel used to generate the electricity.

According to municipal utilities employees, during the summer of 1999 to the spring of 2000, KCPL would regularly curtail the town's electricity supply by drastically increasing the rates charged to the city. During those times, the town had to generate its own electricity or pay increased rates set by KCPL. According to KCPL officials, an explosion to one of its boilers reduced its capacity for generating electricity so it needed to raise the cost of electricity provided to Carrollton and other cities which purchase electricity from KCPL. Additionally, significant increases in KCPL's fuel adjustment charges were necessary to compensate for increased fuel costs. Therefore, municipal utility employees believed it would be less costly to generate all of its own electricity from mid-July through mid-September 2000. However, employees indicated significant increases in fuel prices resulted in increased generating costs, and the town spent more by generating its electricity than purchasing electricity from KCPL.

Our review noted the following concerns with the town's decision to generate all of its electricity:

1. This decision was not formally approved by the Board of Public Works. Officials and employees indicated the matter was informally discussed by the board, but the board did not document formal approval. The Board of

Public Works is the governing body of the utilities and major changes to the operation of the utilities should be formally approved by the board.

2. The town did not perform a formal cost benefit analysis to compare the costs of generating electricity to the costs of purchasing electricity. While the uncertainty of fuel prices may have made such an analysis difficult, formal documented analyses are necessary to ensure the town can justify major operating and policy changes to its customers.
- B. During July 2000, it appears the town undercharged its electric customers by approximately \$42,000. The fuel adjustment rate charged to customers in July 2000 was \$.008 per kilowatt hour used. However, documentation for this fuel adjustment calculation was not retained. When employees attempted to re-create the calculation, it appears the adjustment should have been \$.02 per kilowatt hour, not \$.008 per kilowatt hour (as was charged). Additionally, there is no independent review of fuel adjustments to help ensure rates are calculated correctly.
 - C. The municipal utilities had operating losses of \$168,395 and \$156,062 during 2000 and 1999, respectively. During 2000, a rate study was completed by an outside engineering firm at a cost of approximately \$3,000 to determine the level of water and electricity rates needed to break even. The rate increases recommended in the study have been implemented by the board. However, it appears the municipal utilities is still operating at a loss during 2001.

The board needs to review the overall operations of the utilities and consider increasing rates or reducing costs to attempt to stop the overall operating losses. An additional rate study may be necessary to consider all current factors and ensure any rate increases will cover operating costs. In addition, Section 67.042, RSMo 2000, requires the preparation of a statement of costs to support any increase in fees to support a particular service.

WE RECOMMEND the Board of Public Works:

- A. Perform formal costs benefit analyses prior to making any major operating or policy changes which could affect the cost of providing services, and ensure all major decisions are formally approved by the board.
- B. Ensure supporting documentation of fuel adjustment calculations is maintained. Additionally, an independent review of these adjustments should be performed to help ensure accuracy.
- C. Review current utility operations and take action to stop the operating losses, and consider obtaining an additional study to determine how utility rates should be set.

AUDITEE'S RESPONSE

- A. *Cost analysis prior to making operating changes that would affect customer service will be brought before the Board of Public Works. The superintendent will make recommendations as to what needs to be done and have documentation. If the superintendent or the board believes additional information needs to be available, then we will consult with professional services.*
- B. *The superintendent and office personnel will review all calculations on fuel adjustments. Professional and legal assistance is available if needed. Unfortunately the current natural gas bill was not available when our electric bills were sent to our customers, so a miscalculation was experienced during July 2000.*
- C. *An in-depth review of operating losses will take place to see how each department can cut costs. It is the superintendent's opinion that rates will have to be gradually raised to offset fuel and operating costs in both the water and electrical departments.*

2. Utility Bidding Policy

There is no documentation that the Board of Public Works followed its purchasing policies in 2000 and prior years. The board has adopted the town's bidding policy which requires competitive bids for all expenditures over \$500. Board minutes in 2000 and prior years indicate bids were solicited for certain purchases, but utility employees were unable to locate any bid documentation. It appears bid documentation has been retained by the current Superintendent since his appointment in March 2001. The following large expenditures were noted during 2000 for which no bidding documentation was apparently retained:

Various chemical purchases	\$ 87,966
Well maintenance	73,269
Fencing	29,700
Concrete work	13,805
Various supplies	8,182
Chemicals for water plant	7,300
Parts for engines	6,682
Inspection	6,296

Formal bidding procedures for major purchases provide a framework for economical management of town resources and help ensure the town receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the town's business. Complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

WE RECOMMEND the Board of Public Works adhere to the board's policy of soliciting bids for all expenditures over \$500. Additionally, documentation should be retained of all bids or proposals received and justification for the bid selected.

AUDITEE'S RESPONSE

Formal bidding procedures with documentation have been implemented since March 2001. Included in these records are the companies' names, material to be purchased, and amount. Three bids are required on purchases above the amount of \$500, although more bids are taken if available. The superintendent will show the final bids to the Board of Public Works for documentation. In case of an emergency where materials or parts have to be ordered, the superintendent will show his reason for the purchase to the board at its next regular meeting. Independent contractor agreements have also been implemented since March 2001. Long form bids are usually handled through engineering services with assistance from the superintendent.

3. Utility Payroll Procedures

A. Time sheets are not prepared by any of the twenty municipal utilities employees. Salary costs for some employees are allocated to the electric and water funds, but there is no documentation to support these allocations. Time sheets are necessary to document hours actually worked and substantiate payroll expenditures and the allocation of payroll expenditures to the electricity and water funds. The municipal utilities should require all employees to prepare detailed time sheets and these time sheets should be approved by the appropriate supervisors.

B. The Board of Public Works holds closed meetings in December of each year to discuss employee raises. Board members indicated they informed the former superintendent of the approved salary amounts, and that he then informed the office manager of the employee raises that were approved by the board. However, there is no documentation of board approval of specific salary amounts. Although minutes are prepared for most closed meetings, minutes of the closed meetings to discuss employee salaries are not prepared.

Board approval of employee salaries should be documented to ensure all salaries are properly authorized. Although minutes of closed meetings are not specifically required by law, minutes help show that the closed discussions or business related to the specific reason announced for closing the meeting comply with the Sunshine Law, Chapter 610, RSMo 2000.

C. Municipal utilities employees receive a Christmas bonus every year amounting to \$15 for every year of service. In 2000, bonuses totaling \$4,860 were paid to employees. These bonuses appear to represent additional compensation for services previously rendered and violate Article III, Section 39 of the Missouri Constitution. Attorney General's Opinion No. 72, 1955 to Pray, states, "...a government agency deriving its power and authority from the Constitution and

laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered.”

WE RECOMMEND the Board of Public Works:

- A. Require time sheets be completed for each employee showing the actual hours worked for each department along with hours taken off, and ensure all time sheets are signed by the employee and approved by the appropriate supervisor.
- B. Ensure minutes are maintained to document the matters discussed in the closed meetings. Additionally, the board should document approval of all employee salaries.
- C. Discontinue the practice of giving Christmas bonuses to employees.

AUDITEE'S RESPONSE

- A. *Department heads have always kept a type of record on the employees' time at work. If an employee was absent, then he/she is required to come to the office and fill out the proper documents. We will start having department heads keep written time sheets to be turned into the office on a regular basis.*
- B. *The office manager always recorded the minutes of the meetings of the Board of Public Works. It has always been the practice of the board to excuse the office manager when raises were discussed; unfortunately no one recorded the minutes. If the superintendent was considered for a raise, he also was excused. The office manager found out later about the raises. It is the consensus of the board to change this procedure or have another board member record the minutes during this time.*
- C. *Added to the Company Policy Manual of the Carrollton Municipal Utilities (CMU), under compensatory time, it states, "All employees are compensated \$15 a year for every year they are employed at CMU". The word bonus no longer exists.*

4. Fuel Card and Vehicle Policies
--

The town uses 21 fuel credit cards for its various departments and the municipal utilities uses one fuel credit card for all of its vehicles. Employees must enter a personal identification number (PIN) at the fueling station when using the cards. The employees do not receive charge slips and are not required to enter the odometer readings when purchasing fuel. However, a detailed report of all fuel card transactions by department is received monthly and each department head reviews the fuel purchases for reasonableness. The town has twenty-one vehicles and it purchased fuel totaling \$13,704 in 2000 on its fuel cards. The municipal utilities has eight vehicles and a total of \$9,030 was charged on its fuel card in 2000. We noted the following concerns regarding fuel cards:

- A. The town does not have formal policies governing the use and assignment of the fuel cards. Some cards are carried by town employees and some are placed in specific vehicles, but there is no log or other record of the custody or assignment of fuel cards. In addition, some departments' procedures for fueling appears to create inefficient use of employees' time. For example, cards are not assigned to reserve police patrol vehicles and when a reserve patrol car needs fuel, it must meet another town vehicle at the gas station to fill up, using the fuel cards assigned to these other vehicles. The municipal utilities' fuel card is kept by the superintendent and approximately once a week, utilities employees meet the superintendent at the gas station to fill up the utilities' vehicles.

The town and municipal utilities should adopt formal policies and procedures for the assignment and use of fuel cards. Separate fuel cards should be assigned to each vehicle and no cards should be assigned to employees. This would allow the town and municipal utilities to better track fuel usage for each vehicle and provide a more efficient means for fueling each vehicle. In addition, the town and municipal utilities should consider obtaining fuel cards which require the employee to enter the odometer reading when purchasing fuel, and receiving the odometer readings on the detailed reports received from the credit card company. This would provide additional information to help ensure the reasonableness of fuel purchases.

- B. Some fuel cards are used by employees to fill their personal vehicles when used for town purposes. Additionally, other town employees and officials are reimbursed for fuel purchases for their personal vehicles when used for town purposes by submitting charge slips to the mayor's Administrative Assistant. No other documentation is required to receive reimbursement for fuel purchased for personal vehicles. This practice provides less assurance that town resources are used only for official town business.

The town should adopt a policy requiring all officials and employees to use town vehicles when available and practical. If employees and officials are required to use personal vehicles for town purposes, the town should pay a mileage rate and require employees and officials to submit reimbursement requests which include the date, purpose, location traveled to and from, and total miles traveled.

- C. The town and municipal utilities do not maintain usage and maintenance logs for several vehicles and equipment. Usage and maintenance logs are necessary to document appropriate use of the vehicles and to support fuel and other charges. The logs should include the purpose and destination of each trip, beginning and ending odometer readings or hours of usage as applicable, and all operation and maintenance costs. These logs should be reviewed by a supervisor to ensure vehicles and equipment are used only for town business, are being properly utilized, and help identify vehicles and equipment which should be replaced. Information on the logs should be periodically reconciled to applicable

expenditure records to help identify and prevent inappropriate fuel purchases or other maintenance and operating charges.

WE RECOMMEND:

- A. The Town Council and the Board of Public Works adopt formal written procedures regarding the use and assignment of fuel cards. These policies should include the assignment of separate fuel cards to each vehicle. In addition, the Town Council and Board of Public Works should consider obtaining cards which require odometer readings to be entered for each fuel purchase.
- B. The Town Council discontinue the practice of paying for fuel for personal vehicles when being used for town purposes. The council should establish a mileage reimbursement rate and require employees and officials to submit detailed mileage reimbursement requests which include the date, purpose, location traveled to and from, and total miles traveled.
- C. The Town Council and the Board of Public Works maintain mileage and maintenance logs for all town vehicles and equipment and ensure these logs are reviewed for reasonableness.

AUDITEE'S RESPONSE

The Town Council provided the following response:

All departments for the Town of Carrollton are currently using fuel cards. Cards are kept in each vehicle with the exception of the Police Department (PD). The PD has cards in the three first responding vehicles. If a police reserve needs fuel, he/she must contact the officer on duty. Mileage and gallons purchased are being recorded at every fill up. Mileage will only be recorded at each fill up and when any special out of town trips are taken. There are no fuel cards in any one person's custody. Maintenance logs are kept for each vehicle in the separate departments. Some logs are kept in the offices of the departments and some are kept in the vehicle itself. The Town of Carrollton will adopt a written policy that should be complete and on record by the end of January 2002.

The Town of Carrollton is no longer paying for fuel in any personal vehicles. If special trips are taken, an expense report will be filed and mileage will be paid to the individual.

The Board of Public Works provided the following response:

- A. *It is our recommendation that each department head will have a fuel card to be used for trucks, pumps, etc., in his care. PIN, odometer reading, and vehicle number will be used for future purchases.*

- C. *Maintenance logs for each truck will be kept. We will have the driver record each time the trucks are used, including date, mileage, truck number, and driver's name. Each department head will check and file each log sheet.*

5. Budgets

- A. The town's budgets do not include some information required by state law. The budgets do not include a budget message or some required information regarding the town's debt. The budgets include actual revenues and expenditures for only the preceding year instead of two years, as required by law. Additionally, some funds are not budgeted, and the Board of Public Works does not prepare budgets for the operations of the municipal utilities.

Section 67.010, RSMo 2000, requires each political subdivision of the state to prepare annual budgets with specific information. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A complete budget should include appropriate revenue and expenditure estimates by classification, and include the beginning available resources and reasonable estimates of the ending available resources for all funds, including the funds of the municipal utilities. The budget should also include a budget message and information on interest, amortization, or redemption charges on debt.

- B. For the year ended December 31, 2000, the town approved expenditures in excess of the budgeted amounts for capital outlay in the street fund as follows:

Budgeted Amount	Actual Expenditures	Actual Over Budget
\$ 161,980	240,144	78,164

The street fund budget was not amended to reflect these additional expenditures. Additionally, a budget amendment was not prepared for a hazard mitigation grant that was received during 2000. Therefore, appropriations to spend these additional grant revenues were not approved by the Town Council.

Section 67.040, RSMo 2000, requires political subdivisions to keep expenditures within amounts budgeted. If there are valid reasons which necessitate excess expenditures, a resolution should be adopted by the governing body setting forth the amount of the budget increase and the facts and reasons for such.

WE RECOMMEND:

- A. The Town Council ensure all funds are budgeted and annual budgets include all relevant information, as required by state law. Additionally, the Board of Public Works should prepare annual budgets for the municipal utilities.

- B. The Town Council ensure expenditures are kept within budgeted amounts. If it is necessary to incur additional expenditures, a resolution setting forth the increase and reasons for such should be adopted.

AUDITEE'S RESPONSE

The Town Council provided the following response:

The budget for the Town of Carrollton for the year 2002 will reflect all information required by law, specifically , actual revenues and expenditures for the two prior years, a budget message, and interest, amortization, and redemption charges on debt. If any changes are made to the budget, an amendment will be filed as soon as the change is expected.

The Board of Public Works provided the following response:

- A. *The CMU will try to implement a budget for the ensuing year. With exuberant price fluctuation in fuel costs, purchasing power, and engine parts, it is sometimes difficult to stay on a budget, but one will be used for a guideline. We are sure it will be helpful.*

The Board of Public Works provided the following overall response:

The Board of Public Works would like to thank the concerned citizens who signed the petition and the Office of the State Auditor for bringing to our attention these findings. The CMU will start immediately in correcting these indifferences and will be more responsive to our customers' concerns. It has always been our policy to provide electricity and water at reasonable rates to our customers and contribute back to the Town of Carrollton many municipal benefits.

This report is intended for the information of the management of the Town of Carrollton, Missouri, and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

TOWN OF CARROLLTON, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Town of Carrollton, is located in Carroll County. The town was incorporated in 1833, and is a special charter town. The population of the town in 2000 was 4,122.

The town government consists of a mayor and a five-member town council. The members are elected for two-year terms from four wards with one at-large member. The mayor is elected for a two-year term, presides over the council, and votes only in case of a tie. The Mayor, Town Council, and other principal officials at December 31, 2000, were:

Elected Officials	Term Expires	Compensation Paid For the Year Ended December 31, 2000	Amount of Bond
Ervil Mann, Mayor (1)	April 2001	\$ 17,060	\$ 0
Quenten Harden, Councilman Ward 1	April 2002	3,480	0
L. Darrin Lake, Councilman Ward 2 (2)	April 2001	3,600	0
Steve Walden, Councilman Ward 3	April 2002	3,480	0
Charles Lancaster, Councilman Ward 4 (2)	April 2001	3,440	0
Jack Vantrump, Councilman At-Large	April 2002	3,480	25,000
Carol Pink, Town Clerk (2)	April 2001	2,960	25,000
Kevin Walden, Town Attorney (2)	April 2001	6,040	0
Patricia Gentry, Treasurer Ex-Officio/Collector (3)	April 2001	10	0
 Other Principal Officials			
Judith Hauser, Administrative Assistant (4)		30,832	25,000
Mary K. McGinness, Financial Assistant (4)		20,976	25,000
Carlos Edwards, Town Counselor		6,921	0
Donald King, Police Chief		28,144	0

- (1) Sharon Metz was elected mayor in April 2001.
- (2) Re-elected in April 2001.
- (3) No one ran for the Treasurer Ex-Officio/Collector position in April 2001 and this position remains vacant.
- (4) Judith Hauser resigned in July 2001. Mary K. McGinness was appointed Administrative Assistant and Verlon Persinger was appointed Financial Assistant in July 2001.

On December 31, 2000, the city employed 22 full-time and 2 part-time employees.

The town has a Board of Public Works composed of four members recommended by the Mayor and approved by the Town Council. This board oversees the operation of the municipal utilities (water and electricity). The Board of Public Works members and the Superintendent as of December 31, 2000, were:

Name and Title	Term Expires	Compensation Paid For the Year Ended December 31, 2000	Amount of Bond
Jean Belcher, Board President	October 2004	\$ 1,274	\$ 50,000
James Samples, Board Vice President (1)	October 2002	1,274	50,000
Maurice Miller, Board Member	October 2003	1,274	50,000
Terry Reimer, Board Member (2)	October 2001	1,274	50,000
Lowell Anderson, Superintendent (3)		113,880	50,000

- (1) Resigned in October 2001. Carl Mais was appointed to fill the unexpired term.
- (2) Donald Thomas was appointed to replace Terry Reimer in October 2001.
- (3) Lowell Anderson passed away in February 2001. James Paul was appointed Superintendent in March 2001.

At December 31, 2000, the Board of Public Works employed 20 full-time employees.

Assessed valuation and tax rates for 2000 were as follows:

ASSESSED VALUATION

Real estate	\$ 18,728,620
Personal property	6,399,262
Railroad and utility	779,618
Total	<u>\$ 25,907,500</u>

TAX RATES PER \$100 ASSESSED VALUATION

General	\$ 0.6635
Library	0.2614
Parks and recreation	0.2513
Total	<u>\$ 1.1762</u>

The city has the following sales tax; the rate is per \$1 of retail sales:

	Rate
General	<u>\$ 0.010</u>
Capital improvement	0.005
Total	<u>\$ 0.015</u>